

Message Text

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ACTION SS-14

INFO OCT-01 ISO-00 EUR-08 EB-03 SP-02 TRSE-00 NSC-05

NSCE-00 FRB-01 CIAE-00 ONY-00 SSO-00 /034 W

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 8449

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TAGS: EFIN, UK

SUBJECT: SITUATION REPORT, DECEMBER 6

REF: (A) STATE 267168; (B) LONDON 19516

1. IMF LOAN. PAPERS HEADLINE TODAY THAT CABINET HAS REACHED BROAD AGREEMENT ON THE SHAPE OF THE PSBR REDUCTION ENTAILED IN MEETING IMF CONDITIONS. FINANCIAL TIMES AND TIMES ARTICLES BOTH APPARENTLY HAVE RING OF TRUTH TO THEM. ARTICLE BY MARTIN AND BELL DATELINED WASHINGTON STATES THAT PSBR IN FY 1977/78 WOULD BE REDUCED BY 1 BILLION POUNDS RESULTING FROM PUBLIC EXPENDITURE CUTS, WITH A FURTHER 500 MILLION POUND REDUCTION FROM LOWER FINANCIAL PAYMENTS PARTICULARLY DEBT INTEREST. IN ADDITION THERE IS PROSPECT OF SELLING PART OF THE GOVERNMENT'S HOLDINGS IN BRITISH PETROLEUM TO RAISE A FURTHER 500 MILLION POUNDS BRINGING THE TOTAL PSBR CUTS TO 2 BILLION POUNDS. THERE ARE ALSO REPORTED FURTHER CUTS OF UP TO 1-1/2 - 2 BILLION POUNDS IN THE PSBR IN FY 78/79.

THE MARTIN-BELL ARTICLE NOTES SATISFACTION IN IMF AND US TREASURY OF THE GROWING BRITISH ACCEPTANCE THAT
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CUTS IN PUBLIC EXPENDITURE ARE NECESSARY. SEPARATE

ARTICLE BY RICHARD EVANS, PARLIAMENTARY LOBBY EDITOR OF FINANCIAL TIMES, INDICATES CRITICS IN THE CABINET, WITH THE EXCEPTION OF ENERGY MINISTER WEDGWOOD BENN AND MINISTER FOR ENVIRONMENT, PETER SHORE NOW BACK THE PLAN FOR SPENDING CUTS AND THAT BENN AND SHORE ARE EXPECTED TO SHIFT THEIR POSITIONS IF THE PRESENT PROPOSALS GO THROUGH, EVEN THOUGH THEY BOTH MADE PUBLIC STATEMENTS OVER THE WEEKEND INDICATING THEIR PERSONAL OPPOSITION TO THEM.

PRIME MINISTER CALLAGHAN APPARENTLY HAS NOW THROWN HIS WEIGHT BEHIND THE CHANCELLOR, GIVING TOTAL SUPPORT TO THE CURRENTLY PROPOSED CUTS PUT FORWARD BY CHANCELLOR HEALEY.

ARTICLES ALSO SPECULATE ON THE LIKELIHOOD THAT THE LOAN WILL BE ACCOMPANIED BY A FIRM COMMITMENT BY A NUMBER OF COUNTRIES TO TALKS ABOUT THE FUTURE RESERVE ROLE OF STERLING WHICH WOULD, IN TURN, BE UNDERPINNED BY A NEW INTERNATIONAL STANDBY CREDIT WHILE THESE TALKS ARE IN PROGRESS. IN ADDITION, A MEETING OF THE GAB STILL HAS TO BE SQUEEZED IN DURING THE NEXT 2-1/2 WEEKS TO ARRANGE FOR THE FUNDS NECESSARY FOR THE IMF DRAWING.

THE CABINET IS MEETING ON THIS SUBJECT TODAY, TOMORROW, AND PROBABLY THURSDAY.

2. A MEETING OF THE TUC-LABOR PARTY LIAISON COMMITTEE WILL TAKE PLACE TODAY (DECEMBER 6) WITH SENIOR GOVERNMENT MINISTERS PARTICIPATING. IT IS EXPECTED THAT THE GOVERNMENT WILL PROVIDE SOME INDICATION OF THE IMPACT ON JOBS OF ITS FORTHCOMING AUSTERITY PACKAGE.

3. BUSINESS SURVEYS. BOTH THE FINANCIAL TIMES (FT) AND CONFEDERATION OF BRITISH INDUSTRY (CBI) MONTHLY BUSINESS OPINION SURVEYS SHOW A WEAKENING OF CONFIDENCE ABOUT FUTURE BUSINESS PROSPECTS. THE FT SURVEY SHOWS INCREASING PESSIMISM ABOUT THE LIKELY BEHAVIOR OF WAGE AND MATERIALS COSTS, PROFITABILITY AND INVESTMENT. EARLY WARNINGS OF BOTTLENECKS HAVE MADE AN APPEARANCE

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IN THE SURVEY. RAW MATERIALS AND SKILLED FACTORY STAFF ARE CITED BY ABOUT A FIFTH OF RESPONDENTS AS FACTORS CURRENTLY AFFECTING PRODUCTION. THE CBI SURVEY SINGLES OUT A WEAKENING IN THE NEW ORDERS FOR MANUFACTURING INDUSTRY, INCLUDING EXPORT ORDERS, AS A DISTURBING SIGN. MOREOVER, THERE ARE INDICATIONS THAT HIGH INTEREST RATES ARE HAVING NEGATIVE IMPACT ON INVESTMENT INTENTIONS AND INVENTORIES. NEVERTHELESS, THE CBI STILL

ENVISAGES EXPORT GROWTH OF UP TO 10 PERCENT IN 1977.

4. THE BRITISH DISEASE--POOR MANAGEMENT. IN A

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SCATHING CRITIQUE, THE BRITISH INSTITUTE OF MANAGEMENT SHAPLY OUTLINES BRITISH INDUSTRY'S DISASTROUS RECORD ON DELIVERY DATES. IN A SURVEY OF 186 PLANTS, ONE-QUARTER WERE FOUND TO DELIVER HALF OR MORE OF THEIR ORDERS LATE. FULLY 40 PERCENT HAD NO FORMAL PROCEDURES FOR MONITORING DELIVERY PERFORMANCE.

5. PUBLIC SECTOR BORROWING REQUIREMENT (PSBR). FIGURES ON THE PSBR FOR THE FIRST 6 MONTHS OF FY 76 SHOW TOTAL BORROWING (SEASONALLY ADJUSTED) OF 5.16 BILLION POUNDS. THIS IS BELOW THE 5.75 BILLION LEVEL WHICH WOULD BE CONSISTENT WITH H.M. GOVERNMENT'S ORIGINAL FY 76 ESTIMATE OF 11.5 BILLION POUNDS. MOST OBSERVERS NOW BELIEVE THAT THE ACTUAL PSBR FOR THE CURRENT FISCAL YEAR WILL BE ON THE ORDER OF 11.0 BILLION POUNDS# THE PSBR FOR THE LATEST 6 MTNTHS REPRESENTS A SLIGHT DEWA CLINE FROM THE 5.37 AND 5.59 BILLION POUND FIGURES RECORDED DURING THE TWO PREVIOUS SEMESTERS.

6. FOREIGN EXCHANGE AND FINANCE. ON FRIDAY THE POUND CLOSED AT \$1.6630, DOWN 0.0015 CENTS ON THE DAY; THE

TRADE WEIGHTED DEVALUATION WIDENED TO 45.0 FROM 44.8 PERCENT. STERLING OPENED WEAKER TODAY AND FELL TO ABOUT \$1.6545 BY MID-MORNING.

ON FRIDAY THE GILT MARKET STRENGTHENED ON REPORTS LIMITED OFFICIAL USE

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OF EVENTS LEADING TO BRITAIN'S LETTER OF INTENT TO THE IMF. HOWEVER, DEALINGS WERE THIN WITH SMALL PURCHASES PUSHING UP PRICES BY UP TO 7/16 IN THE SHORTS. LONGER MATURITIES LOST THEIR INITIAL GAINS TO CLOSE UN-CHANGEDWM

THE FT INDEX OF 30 INDUSTRIALS ROSE 4.4 TO 305.3 ON VERY LOW VOLUME.1

THE MLREMAINED UNCHANGED A5 14.75 PERCENT. DAY-TO-DAY CREDIT WAS IN GOOE SUPPLY AND THE BANK OF E GLAND DIE NOT INTERVENE IN MONEY MARKETS.

ARMSTRONG

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